U.S. TRADE IN PERSPECTIVE

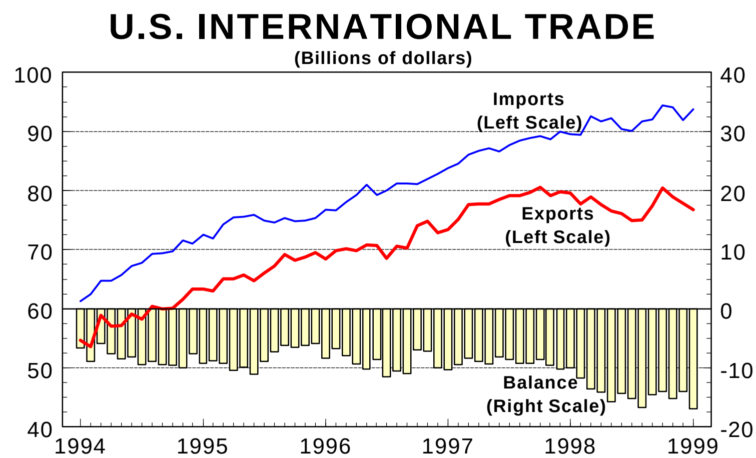
U.S. Department of Commerce, International Trade Administration, Trade Development April 1999

Widening Global Economic Slowdown Pushes U.S. Deficit to a New Record

Key Developments: *In January, the U.S. goods and services trade deficit set another record as exports declined and imports rose. Weak demand for exports in Asia contributed significantly to slackening exports. In addition, slowing economic growth in Canada, Mexico, and Europe and declining GDP in some South American countries also hurt U.S. exporters.*

The U.S. economy remains strong, and, as a result, the level of imports continues to rise. However, as a share of GDP, U.S. imports of goods and services were slightly lower in the second half of 1998 than they were during the same period in 1997.

The price of crude oil sank to $9.19 a barrel in January. By comparison, the average price per barrel in 1998 was $11.52, down from $17.45 in 1997.



1998-99 Trends: U.S. exports of goods and services fell for the third consecutive month in January. Exports fell or were stagnant during most of 1998 with the exception of two months—September and October—when aircraft deliveries and grain exports boosted total export figures. January 1999 exports of goods and services were 3.5 percent lower than levels in January a year ago, while imports rose 5 percent over the same period. The decrease in U.S. exports during January coupled with a rise in imports widened the U.S. trade deficit to $17.0 billion, surpassing August's record for the largest monthly deficit.

- January exports were $76.8 billion, declining by $1.1 billion from December's revised figure. Imports rose $1.8 billion to $93.8 billion.

- The trade deficit in the first month of 1999 worsened to an annual rate of $204 billion, compared with $120 billion in January 1998. (For all of 1998, the trade deficit was $169 billion, averaging $14.1 billion per month.)

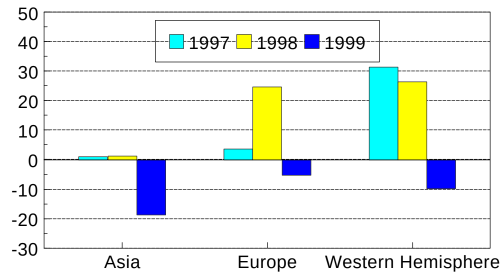
Regional View: U.S. Deficits Widen Globally, Especially in W. Hemisphere

While the rise in the merchandise trade deficit in 1998 was primarily a result of the deterioration in the U.S. trade balance with Asia, January figures show a broad-based widening of the trade deficit. Each region's trade deficit deteriorated. Although the deterioration of the U.S. deficit with Asia slowed, Japan and most of Asia remain in recession, limiting a full recovery of U.S. exports. The weakening economic growth in the Western Hemisphere and South America has impeded U.S. exports, and along with rising imports, this has caused a sharp deterioration in the trade deficit with the Western Hemisphere.

In January of 1999, exports to the Western Hemisphere declined 4 percent compared with January 1998. Exports to Asia declined 10 percent from year-earlier levels, while exports to Europe decreased 3 percent.

Dollar Change in Exports by Region

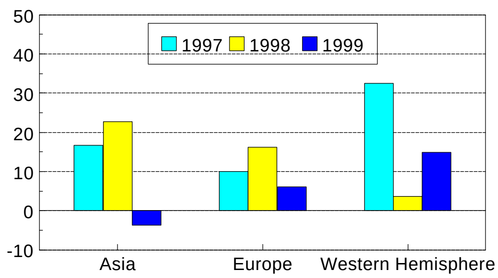
(Billions of dollars*)



*Year to date change from a year ago at an annual rate

Dollar Change in Imports by Region

(Billions of dollars*)



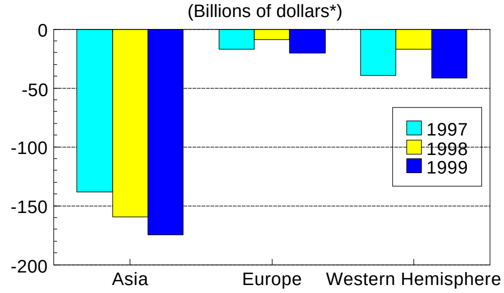
*Year to date change from a year ago at an annual rate

Imports from Asia in January declined 1 percent compared with year-earlier levels. Imports from Europe slowed to 3 percent growth from a year ago. Imports from the Western Hemisphere are picking up, despite low oil prices. January imports from the Western Hemisphere rose 5 percent from levels a year ago.

In the first month of 1999, the trade deficit with every major region worsened. The trade deficit with the Western Hemisphere worsened the most, despite lower oil prices. At an annual rate, the U.S. deficit with the Western Hemisphere totaled $41.6 billion in January of this year compared with $16.8 billion in January 1998. The U.S. trade deficit with Asia continued to worsen, but at a slower rate. In January, the deficit totaled $175 billion (annual rate) while totaling $160 billion a year earlier. The U.S. trade deficit with Europe worsened to $20.2 billion from $8.8 billion in January 1998.

Trade Balance by Region

(Billions of dollars*)



*Balances are year to date at an annual rate.

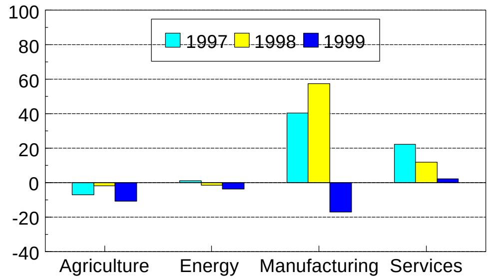
Sectoral View: Weak Prices and Demand Produce Broad Sectoral Declines

In January, U.S. merchandise exports fell and services exports stagnated. Exports of industrial supplies, foods and feed, and autos were hit hardest by shrinking global demand. All of these categories have declined from January 1998 levels. The exception was capital goods exports, which were held aloft by strong aircraft exports. Low oil prices are still holding down the deficit in energy products.

In the first month of this year, exports of manufactured goods declined 3 percent from January a year ago, while services exports remained close to their levels a year ago. Exports of most categories of goods fell, and only capital goods rose, increasing 1 percent. World agricultural commodity prices remain at low levels, reducing the value of U.S. exports by 19 percent from January levels a year ago.

Dollar Change in Exports by Sector

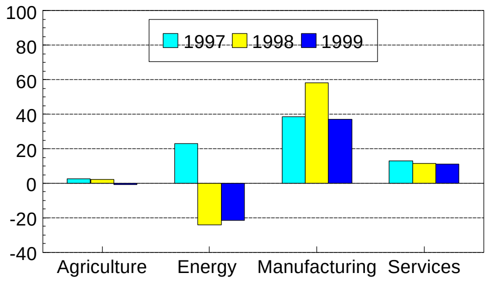
(Billions of dollars*)



*Year to date change from a year ago at an annual rate

Dollar Change in Imports by Sector

(Billions of dollars*)

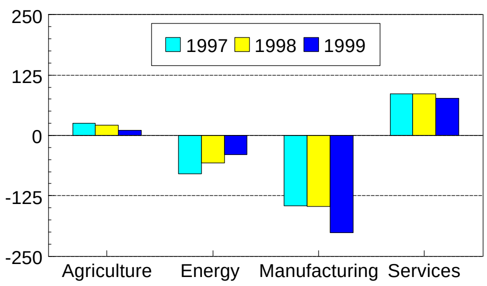


*Year to date change from a year ago at an annual rate

The January price of crude oil was down 36 percent from a year ago. Cheap oil reduced the value of U.S. energy imports throughout 1998. Imports of energy products in the first month of this year were 31 percent lower than January a year earlier. January imports of manufactured goods rose 5 percent from a year ago, while services imports increased 6 percent.

Trade Balance by Sector

(Billions of dollars*)



*Balances are year to date at an annual rate.

Most of the deterioration in the U.S. trade deficit stems from trade in manufactured goods. In January, the manufacturing deficit rose to $201 billion (annual rate) from $147 billion in January a year earlier. The surplus sectors of agriculture and services continued to worsen. In the first month of 1999, the surplus in agriculture deteriorated to $11.2 billion from $21.4 billion the previous January. The surplus in services retreated to $77.2 in January compared to $86.0 billion in January a year ago. However, in energy products, the U.S. deficit improved to $39.1 billion from $56.9 billion in January 1998.

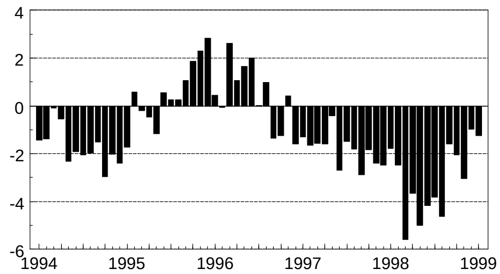
The Asia Factor: Trade Deficit Widens in January

The U.S. monthly trade deficit with Asia was $14.6 billion in January. U.S. imports fell, but exports declined even more. The deficit with Asia was $1.3 billion worse than in January 1998. Exports were down because many Asian nations are still mired in recessions.

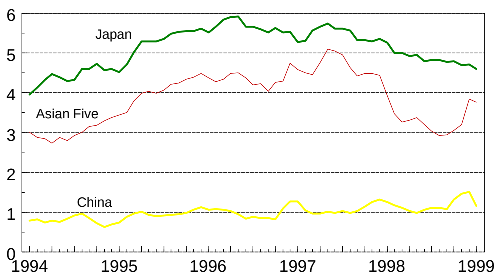
In January, U.S. exports to Asia totaled $14.5 billion and imports were $29.1 billion, resulting in a merchandise trade deficit of $14.6 billion. U.S. exports fell by $3.3 billion and imports dipped $1 billion.

Exports were down 10 percent, while imports declined 1 percent from a year ago. The deficit with Asia in January was $1.3 billion worse than a year earlier, after having deteriorated as much as $5 billion in mid-1998.

Dollar Change in U.S. Trade Balance with Asia
(Billions of dollars)



U.S. Exports to Japan, China, and the Asian Five
(Billions of dollars*)

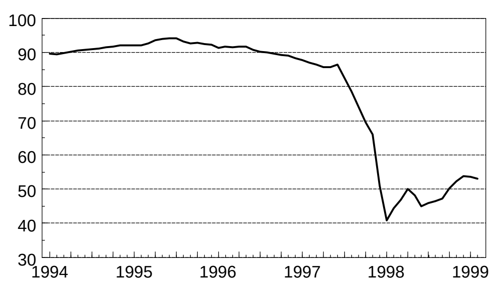


*3-month moving average

U.S. exports to China (using a three-month moving average) have remained fairly constant, with some bumps centered around the winter season. As Japan and the Asian Five slid into recession in 1998, U.S. exports to them plummeted. An upward turn in U.S. exports to the Asian Five toward the end of 1998 was largely due to a surge in exports to South Korea, and a sharp increase in U.S. exports to Indonesia and Thailand in December.

Following the 1997 financial crisis, the Asian Five's currencies depreciated 52 percent against the U.S. dollar in nominal terms. By February 1999, those currencies have regained about one-third of their earlier declines. The strengthening of their currencies may be partly due to these countries' buildup in trade surpluses with the world and the decline in their inflation rates.

Asian Five Exchange Rate
(U.S. dollar per currency*)



*Index (Jan 1990=100)

Prepared by the Office of Trade and Economic Analysis, Trade Development. For more information call 202-482-2056.